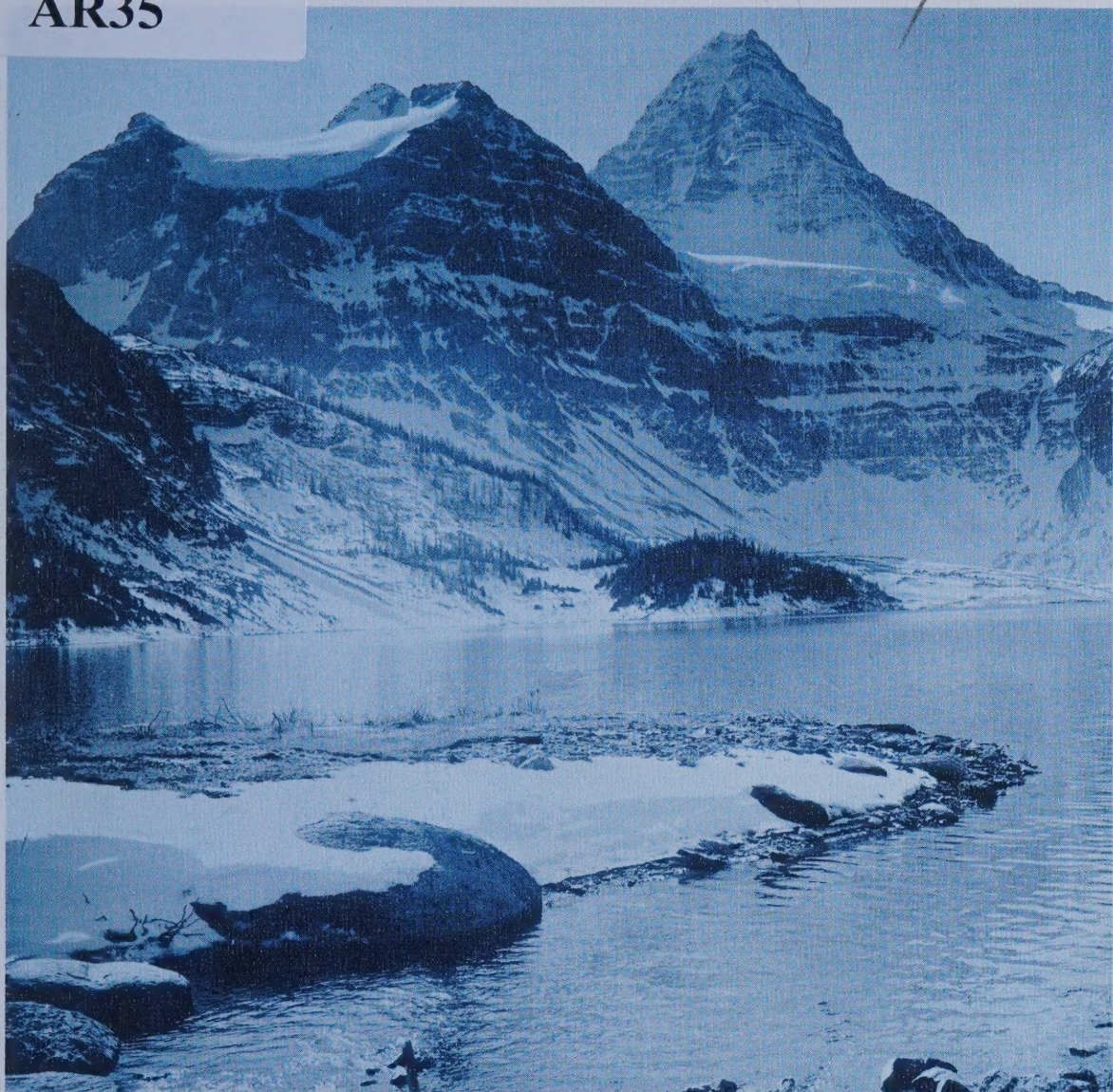


AR35



ANNUAL REPORT 1969



INCORPORATED UNDER THE LAWS OF THE PROVINCE OF ALBERTA

HEAD OFFICE:

THIRD FLOOR
703 FIFTH STREET S.W.,
CALGARY 2, ALBERTA

DIRECTORS:

D. B. BULLOCK, CALGARY, ALBERTA
L. K. BROWN, CALGARY, ALBERTA
H. N. CRAWFORD, TORONTO, ONTARIO
K. L. CUTTS, WINNIPEG, MANITOBA
D. S. JONES, CALGARY, ALBERTA
A. MUIRHEAD, CALGARY, ALBERTA
H. S. RHODES, CALGARY, ALBERTA

OFFICERS:

D. B. BULLOCK, PRESIDENT
H. S. RHODES, VICE-PRESIDENT
D. S. JONES, SECRETARY
A. MUIRHEAD, TREASURER

AUDITORS:

PEAT, MARWICK, MITCHELL & Co.,
CALGARY, ALBERTA

SOLICITORS:

CLARKE & JONES, CALGARY, ALBERTA
FENERTY, MCGILLIVRAY, ROBERTSON,
PROWSE, BRENNAN, FRASER, BELL & CODE,
CALGARY, ALBERTA

BANKERS:

THE ROYAL BANK OF CANADA, MAIN BRANCH,
CALGARY, ALBERTA
THE BANK OF MONTREAL, MAIN BRANCH,
CALGARY, ALBERTA

REGISTRAR:

MONTREAL TRUST COMPANY,
AT ITS OFFICES:
CALGARY, ALBERTA
VANCOUVER, B.C.
TORONTO, ONTARIO
MONTREAL, QUEBEC

LISTING:

TORONTO STOCK EXCHANGE

ANNUAL MEETING:

THE ANNUAL MEETING WILL BE HELD AT 2:00 P.M.,
MONDAY, SEPTEMBER 22, 1969, AT THE HEAD OFFICE OF
THE COMPANY, THIRD FLOOR, 703 FIFTH STREET S.W.,
CALGARY, ALBERTA

NOTE:

THE FINANCIAL STATEMENT IN THIS REPORT COVERS
THE PERIOD APRIL 1, 1968 TO MARCH 31, 1969. THE
REPORT TO THE SHAREHOLDERS COVERS ACTIVITIES UP
TO AUGUST 22, 1969.



PRESIDENT'S REPORT TO SHAREHOLDERS

It gives me great pleasure to present, on behalf of the Directors of Pinnacle Petroleum Ltd., the Annual Report of the company for the year ended March 31, 1969. 1969 has been and promises to be a significant year for the company, with a change in senior management, a change in exploration policy, and relocation of the Company's offices to modern premises.

On June 9, 1969, Midalta Oil Company Limited acquired 50.1% of the issued common stock of Pinnacle Petroleum Ltd., subject to certain commitments, which resulted in Midalta Oil Company Limited retaining beneficial ownership of 40.4% of the issued common stock of the Company. Midalta Oil Company Limited is a public Alberta corporation, all of the issued stock of which is owned by D. Bruce Bullock of Calgary. Following the acquisition, fundamental changes were made on the Board of Directors and in the policy making management of your company.

The most important objective of your company's management has been to improve its exploration land inventory and stabilize its financial program. With this in mind, we have made and are making a concerted effort to acquire land and financial strength. Under the present market and financial conditions it is considered that your company can best achieve this end by prudent acquisition of or amalgamation with other companies whose assets complement the assets of your company. Toward this goal, approval in principal has been reached with two significant groups and details will be announced when final terms are confirmed. Alternative situations are being reviewed by management at this time and announcements concerning these arrangements will be made as negotiations are completed.

Your company has a very good base on which to build. At present, that base is the reserves at Hamilton Lake. Your company is continuing its program of developing these reserves by drilling additional wells and also by concentrating on the secondary recovery waterflood project. This, and other salient areas are discussed in more detail under the specific areas. The challenge of building from this base is an exciting one, and the potential of the program outlined for execution during this next year is great.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "D. Bruce Bullock".

D. Bruce Bullock, P.Eng.,
President

DRILLING ACTIVITY

A thirty-nine well drilling program during the twelve months ended August 15, 1969, resulted in the completion of 23 oil wells, 10 water injection wells, and six abandonments. The majority of the wells, 22 oil wells and 10 water injection wells, were drilled in the continuation of the Hamilton Lake Project. Wildcat drilling was carried out in the East Rainbow Area (one oil well, one abandonment), Fort Vermillion Area (one abandonment), Abbey Area (two abandonments), Majorville Area (two abandonments).

EXPLORATION

As a part of the policy review referred to earlier, special consideration was given to the Co Venture Agreement with Japex Canada Limited. This Agreement was originally drawn in June 1966 and provided for a five year exploration program with financing and senior management control to be provided by Japex. With the change in ownership of the controlling shares of Pinnacle and by mutual agreement with Japex the Co Venture agreement has been dissolved and normal petroleum industry joint operating agreements have been negotiated in lieu.

Caribou Mountains - Alberta (12½% Interest)
(former Co Venture lands)

Pinnacle Gross Lease Acres - 13,440
Net Lease Acres - 1,680

The P. & N.G. Reservation has been validated and converted to leases.

Fort Vermillion - Alberta (12½% Interest)
(former Co Venture lands)

Pinnacle and Japex drilled a well on the option block thereby earning an interest in an additional 22 sections.

Pinnacle Gross Lease Acres - 27,480
Net Lease Acres - 3,435

Mosquito Indian Reservation - Saskatchewan (25% Interest)
(former Co Venture lands)

A seismic program was conducted to evaluate the reservation. On the basis of this evaluation leases were then selected.

Pinnacle Gross Lease Acres - 11,440
Net Lease Acres - 2,860

Busche Indian Reservation - Alberta (20% Interest)
(former Co Venture lands)

This reservation is still held in permit form awaiting further development in the area.

Pinnacle Gross Permit Acres - 27,515
Net Permit Acres - 5,503

Chedderville Area - Alberta (11.25% Interest)

During the summer of 1968 your company participated in the discovery of a sour-wet gas reservoir on a 4,800 acre farmout in the Chedderville-Strachan Area of Alberta. The discovery well has been production tested and the results of several seismic surveys have been analysed to provide a basis for further drilling activity. Negotiations with partners are in progress and it is expected that a well will be started this fall.

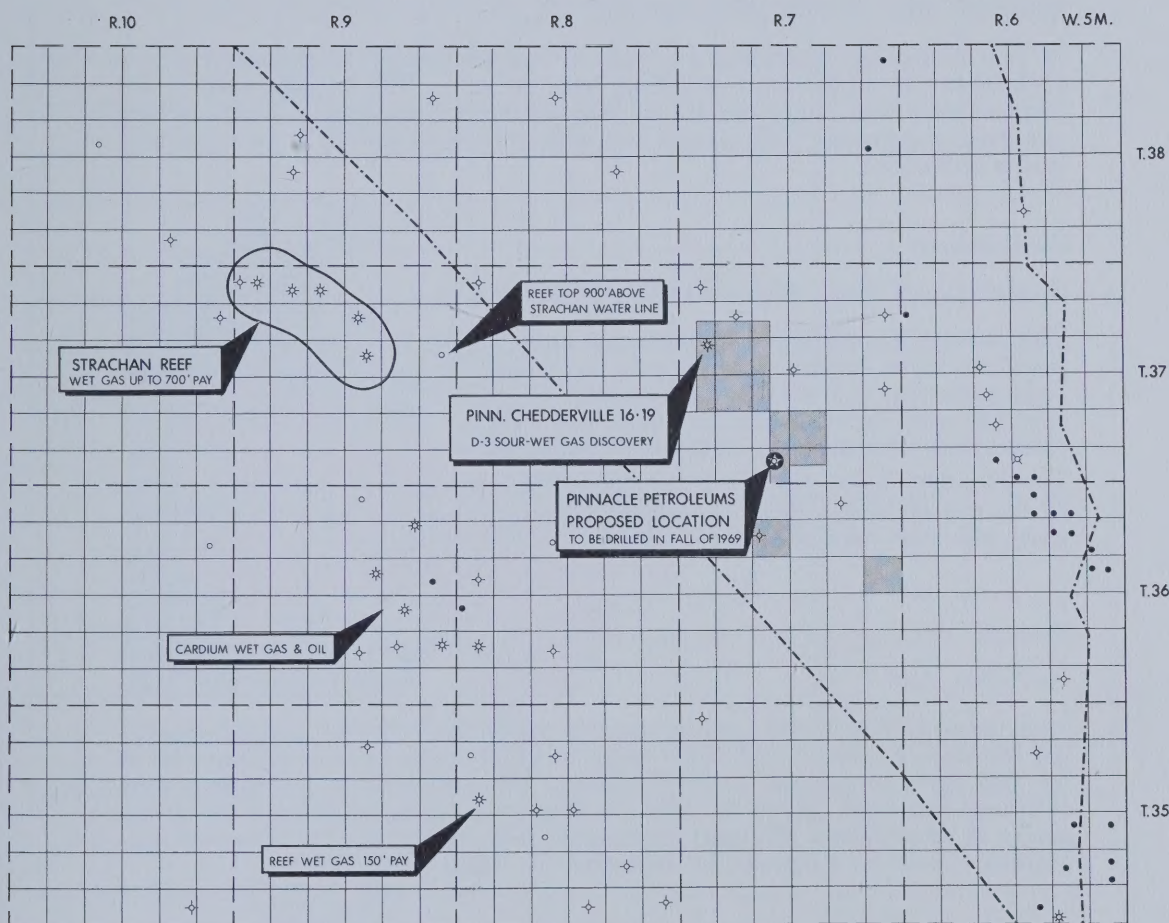


FIGURE NO.2

CHEDDERVILLE-STRACHAN AREA

- PINNACLE ACREAGE
- GAS PIPELINE
- GAS WELL
- OIL WELL
- ABANDONED WELL
- LOCATION

Approximately three miles south of the above mentioned project Pinnacle has acquired a 50% interest in an additional 1,280 acres located along the geological trend indicated by seismic surveys.

Majorville Area - Alberta (25% Interest)

In July a Farmout agreement was entered into whereby Pinnacle would earn a 25% interest in 12,800 acres by drilling four test wells. The first two wells in this program have been drilled but did not find commercial quantities of hydro-carbons and were abandoned. The second two wells will be drilled in August and September of this year.

DEVELOPMENT

Hamilton Lake Area - Alberta (18.4% - 20% Interest)

This summer an additional 22 producing wells are being drilled within the proposed northwest extension of the unit, and along the edges of the unitized area. Field gathering and treating facilities will be installed immediately. There are now 133 wells drilled in the developed area covering 21,280 acres. The company holds a 20% interest in an additional 22,720 acres.

The Hamilton Lake waterflood program is projected to show substantial returns by the end of 1970. This is a good asset and under proper engineering management will show very worthwhile returns to your company.

GROWTH

Peel River Area

Your company has entered into Agreements which result in your company acquiring the right to earn to 31.875% interest in 130,890 acres, and a drilling well in the Peel River Area of the Yukon Territory. This well is being drilled on a large anticlinal feature in search of reefal developments which are believed to be the source of several large bitument occurrences that are exposed near the well site. Drilling should be completed by September 30, 1969.

Arctic Islands

Your company has acquired through the purchase of Midalta Oil Company Limited, 90% interest in nearly 5 million acres in the Arctic Islands. The acreage adjoins land held by Panarctic Oils Ltd. and Amoco Petroleum Company Limited (formerly Pan American Petroleum Corporation) on Prince of Wales Island. Geological evaluation is presently in progress. Further exploration will be carried out in conjunction with other operators already in the area. Interest in the Arctic continues to be high due to the Prudhoe Bay discoveries, and the recognized potential of the whole area.

England

Your company has acquired through the purchase of Grizzly Petroleum Ltd. over 2 million acres of oil rights in two large blocks in England. Geological evaluation of this acreage shows excellent potential for oil and/or gas accumulations. Negotiations are now in progress towards the further exploration and drilling of this prospect in conjunction with other interested groups. In addition to the acreage in England, Grizzly has some producing properties and royalties in Western Canada.

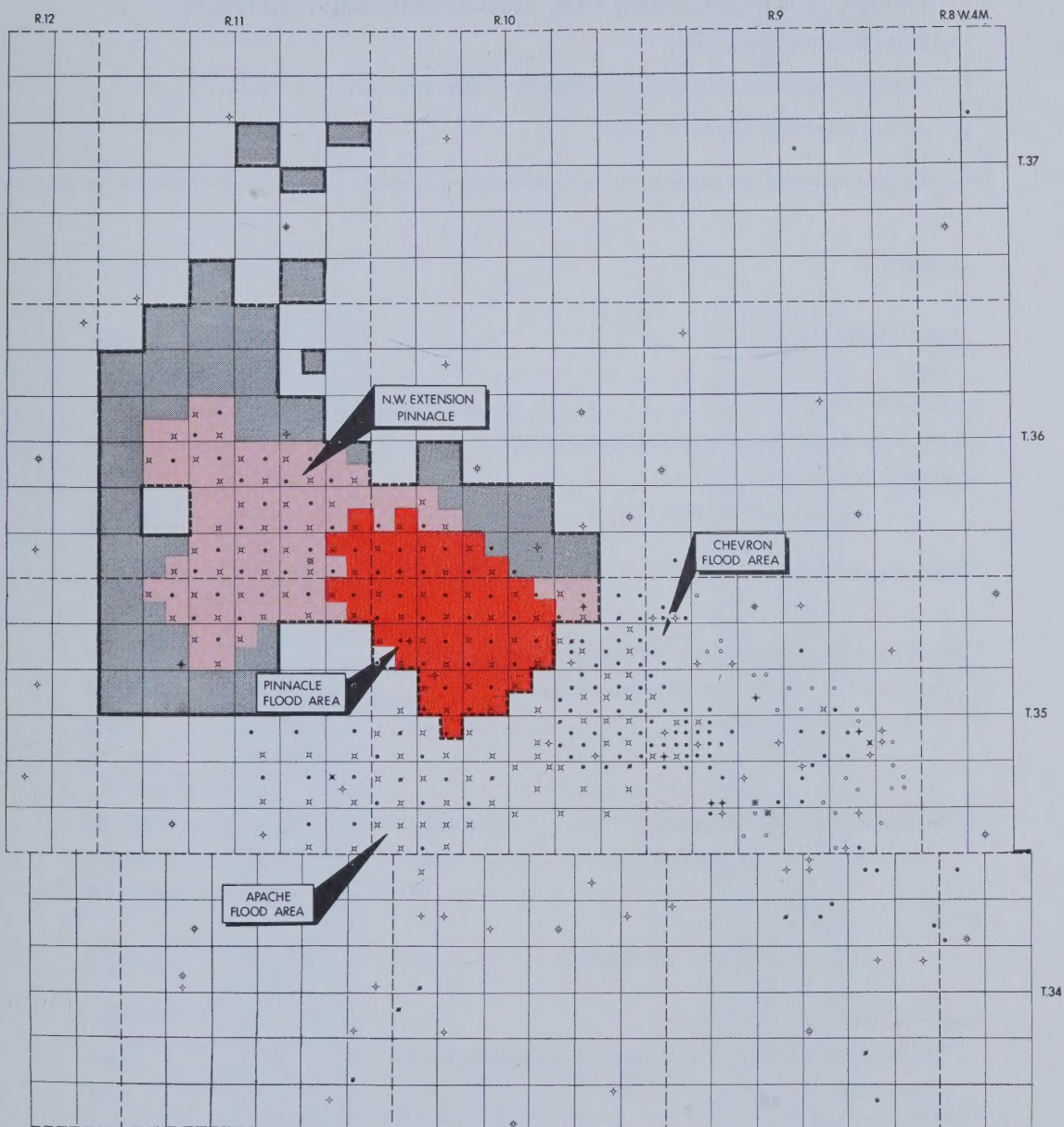


FIGURE NO. 1

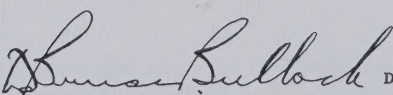
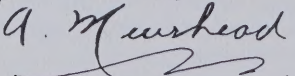
HAMILTON LAKE AREA

PINNACLE PETROLEUMS LTD. AND SUBSIDIARY COMPANY

Consolidated Balance Sheet - March 31, 1969

(with comparative figures for 1968)

ASSETS

	1969	1968
Current assets:		
Cash	\$ 26,974	\$ —
Accounts receivable	70,271	262,852
Due from parent company, Japex Canada Limited	26,548	201,942
Prepaid expenses	2,606	3,537
Total current assets	126,399	468,331
Deferred accounts receivable	28,058	—
Property and equipment - at cost less depletion and depreciation:		
Petroleum and natural gas properties (Note 1)	3,246,338	2,680,959
Less accumulated depletion	283,253	215,234
	2,963,085	2,465,725
Production and other equipment	714,499	551,222
Less accumulated depreciation	252,440	157,144
	462,059	394,078
Net property and equipment	3,425,144	2,859,803
Other assets:		
Drilling and other deposits - at cost less amounts written-off	29,825	64,911
Incorporation expenses	4,517	4,517
	34,342	69,428
Approved on behalf of the Board;		
 DIRECTOR		
 DIRECTOR		
	\$ 3,613,943	\$ 3,397,562

See acco



LIABILITIES

	<u>1969</u>	<u>1968</u>
Current liabilities:		
Due to banks:		
Outstanding cheques less cash on deposit	\$ —	\$ 2,797
Bank loans (Note 2)	<u>401,500</u>	<u>121,500</u>
	<u>401,500</u>	<u>124,297</u>
Accounts payable and accrued liabilities	191,301	717,442
7¾% Series debentures, payable to		
Japex Canada Limited (Note 3)	397,458	—
Promissory note and conditional sales agreement	<u>19,948</u>	<u>18,974</u>
Total current liabilities	<u>1,010,207</u>	<u>860,713</u>
Long-term debt:		
Bank loans less current portion (Note 2)	385,892	400,392
Promissory note and conditional sales		
agreement less current portion	<u>—</u>	<u>19,549</u>
	<u>385,892</u>	<u>419,941</u>
Shareholders' equity:		
Share capital (Note 4):		
Authorized 7,000,000 shares without nominal or par value		
Issued 3,818,500 shares (1968 - 3,554,500 shares)	3,118,728	2,737,328
Deficit	<u>900,884</u>	<u>620,420</u>
	<u>2,217,844</u>	<u>2,116,908</u>
Commitments and contingencies (Note 6)		
	<u>\$ 3,613,943</u>	<u>\$ 3,397,562</u>

**PINNACLE PETROLEUMS LTD.
AND SUBSIDIARY COMPANY**



Consolidated Statement of Earnings
Year ended March 31, 1969

(with comparative figures for 1968)

	<u>1969</u>	<u>1968</u>
Revenue:		
Crude oil sales	\$ 228,592	\$ 209,449
Interest and other income	15,069	8,393
	<u>243,661</u>	<u>217,842</u>
Expenses - net:		
Operating Expenses	153,304	103,358
Depreciation	95,481	75,095
Depletion	68,018	96,141
Mining claims exploration expenses written-off	—	19,789
Salaries and employee benefits	126,912	173,053
General administrative	136,439	127,810
Interest - long-term	46,770	23,666
- other	30,784	16,790
Sundry	6,281	7,756
Expenses recovered from Japex Canada Limited	(114,089)	(81,142)
	<u>549,900</u>	<u>562,316</u>
Less engineering fees and other charges to participants	25,775	27,908
	<u>524,125</u>	<u>534,408</u>
Net loss	<u>\$ 280,464</u>	<u>\$ 316,566</u>

Consolidated Statement of Deficit
Year ended March 31, 1969

(with comparative figures for 1968)

Deficit at beginning of year	\$ 620,420	\$ 241,546
Add:		
Financing expenses	—	62,308
Net loss for the year	280,464	316,566
	<u>280,464</u>	<u>378,874</u>
Deficit at end of year	<u>\$ 900,884</u>	<u>\$ 620,420</u>

See accompanying notes.

**PINNACLE PETROLEUMS LTD.
AND SUBSIDIARY COMPANY**



***Consolidated Statement of Source
and Application of Funds – Year ended March 31, 1969***

(with comparative figures for 1968)

	<u>1969</u>	<u>1968</u>
Source of funds:		
Proceeds from sales of shares of capital stock	\$ 381,400	\$ 1,986,325
Bank loans	—	177,795
Proceeds from disposal of capital assets	678	12,896
Reduction in drilling and other deposits - net	<u>29,086</u>	<u>—</u>
Total source of funds	<u>411,164</u>	<u>2,177,016</u>
Use of funds:		
Net loss for the year	280,464	316,566
Deduct non-cash items - net:		
Depletion	68,018	96,141
Depreciation	95,481	75,095
Mining claims exploration expenses written-off	—	19,789
Other	<u>5,136</u>	<u>5,118</u>
	<u>168,635</u>	<u>196,143</u>
Use of funds on operations	111,829	120,423
Petroleum and natural gas properties	565,378	1,169,120
Production and other equipment	163,276	157,809
Drilling and other deposits	—	50,550
Reduction in non-current bank loans	14,500	—
Reduction in non-current note and conditional sales agreement payable	19,549	20,678
Reduction in notes payable for shares issued	—	134,000
Deferred accounts receivable	28,058	—
Financing expenses	<u>—</u>	<u>62,308</u>
Total use of funds	<u>902,590</u>	<u>1,714,888</u>
Increase (decrease) in working capital deficiency	<u>\$ 491,426</u>	<u>\$ (462,128)</u>

See accompanying notes.

**PINNACLE PETROLEUMS LTD.
AND SUBSIDIARY COMPANY**



*Notes to the Consolidated Financial Statements
March 31, 1969*

1. Principles of Consolidation

The consolidated balance sheet includes the accounts of Pinnacle Petroleum Ltd. and those of its wholly owned subsidiary Baldonnel Oil & Gas Ltd. The excess of the purchase price over the underlying net book value of the shares of Baldonnel Oil & Gas Ltd. amounting to \$131,569 has, on consolidation, been added to petroleum and natural gas properties and has been depleted on consolidation since January 1, 1967.

The companies follow the "full cost" method of accounting wherein all costs and expenses of exploring for and developing oil and natural gas reserves are capitalized and depleted over the productive lives of the properties on a unit of production method.

2. Pinnacle and Baldonnel have pledged certain producing oil properties and revenue therefrom in accordance with Section 82 of the Bank Act as security for these loans. Although the loans are payable on demand, under the agreed terms of repayment approximately \$121,500 will be required to be repaid in the next twelve months and this amount has been included with current banking indebtedness. The loans are also secured by a general assignment of book debts.

3. During the year the company authorized \$1,000,000 of 7 $\frac{3}{4}$ % series debentures payable on demand. Debentures in the principal amount of \$397,458 were issued prior to March 31, 1969 and a debenture of \$59,350 was issued subsequent to this date. In addition a debenture in the principal amount of \$280,000 was issued to Japex Canada Limited as collateral security for that company's guarantee of banking indebtedness of Pinnacle (see also Note 4).

The debentures are secured by a first floating charge on the undertaking and all of the property and assets of the company, both present and future.

4. Share Capital

Shares in the capital stock of the company have been issued during the year as follows:

250,000 shares	for cash, pursuant to an agreement with Japex Canada Limited dated April 13, 1967	\$362,500
<u>14,000 shares</u>	for cash, pursuant to stock options	<u>18,900</u>
<u>264,000</u>		<u>\$381,400</u>

**PINNACLE PETROLEUMS LTD.
AND SUBSIDIARY COMPANY**



Notes to the Consolidated Financial Statements - Continued
March 31, 1969

4. Share Capital - continued

On November 18, 1966 options were granted to certain directors, officers and employees at \$1.35 per share and on December 15, 1967 options were granted at the equivalent of 85% of the closing market price of the shares of the company as indicated by the Toronto Stock Exchange on the date the options were granted (\$3.23). Under the terms of the option agreements one fifth and in one case one quarter of the shares may be purchased after December 1 in each of the years 1967 to 1971 inclusive, the right to purchase being cumulative and unless sooner exercised or terminated by termination of employment, continuous until December 31, 1976. Options were exercised and cancelled during the year as to 14,000 shares and 35,000 shares respectively. At March 31, 1969 there were 87,500 shares under option at \$1.35 and \$3.23 per share.

In consideration of a guarantee of banking indebtedness of the company, amounting to \$280,000, by Japex Canada Limited, Pinnacle has agreed to issue fully paid shares to Japex at a price of \$2.40 per share in full satisfaction of the obligations of Pinnacle to Japex arising from any payments by Japex pursuant to this guarantee.

5. The aggregate direct remuneration paid to directors and senior officers by the Pinnacle Petroleum Ltd. was \$73,360.
6. Under agreement dated June 10, 1966 Japex and Pinnacle agreed forthwith to enter into a co-venture agreement subject to the necessary yearly approval of the Government of Japan, whereby Japex shall prior to December 31, 1971 invest \$3,750,000 under such co-venture agreement and shall also advance, to Pinnacle either by way of loan or as payment for shares or evidences of indebtedness of Pinnacle to the extent necessary to enable Pinnacle to meet its corresponding obligations under the co-venture agreement, sums not exceeding in the aggregate \$1,250,000. At March 31, 1969 \$2,005,341 had been invested by Japex under the co-venture agreement.

The Company is co-signor, with its parent company, of a note payable in the amount of \$59,954. Only 25% of the amount of the note, representing the Company's interest in the asset acquired, is included in the accompanying consolidated balance sheet.

Also, the company has issued to a governmental authority a non-interest bearing demand note in the amount of \$249,193 as security for the performance of work obligations in respect of certain exploratory rights. This note is co-signed by the parent company of Pinnacle.

**PINNACLE PETROLEUMS LTD.
AND SUBSIDIARY COMPANY**



Notes to the Consolidated Financial Statements - Continued
March 31, 1969

7. For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. For 1969 the companies do not intend to claim excess capital allowances but will claim the other specified deductions in amounts sufficient to eliminate taxable incomes, and expenditures remain to be carried forward and applied against future taxable incomes as follows:

Drilling, exploration and lease acquisition costs	\$3,644,682
Undepreciated capital cost	\$ 581,951

Management does not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs; while the view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

On a cumulative basis to March 31, 1969 the companies have written off in their accounts approximately \$437,000 in excess of the capital cost allowances and drilling, exploration and lease acquisition costs claimed for income tax purposes.

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

309 EIGHTH AVENUE WEST
CALGARY, ALBERTA

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Pinnacle Petroleum Ltd. and subsidiary company as of March 31, 1969 and the consolidated statements of earnings, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiary company at March 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta

May 9, 1969

Peat, Marwick, Mitchell & Co.
Chartered Accountants

